CHAPTER I

FINANCES OF THE STATE GOVERNMENT

1.1 Introduction

The accounts of the State Government are kept in three parts (i) Consolidated Fund, (ii) Contingency Fund[1] and (iii) Public Account (***Appendix 1.1–Part A***). The Finance Accounts are laid out in nineteen statements, presenting the receipts and expenditure, revenue as well as capital, in the Consolidated Fund, Contingency Fund and the Public Account of the State. The layout of the Finance Accounts is depicted in ***Appendix 1.1–Part B.***

1.1.1 Summary of Receipts and Disbursements

The table below summarises the finances of the Government of Manipur for the year 2006-07 covering revenue receipts and expenditure, capital receipts and expenditure and public account receipts/disbursements as emerging from Statement-1 of Finance Accounts and other detailed Statements.

Table 1.1: Summary of Receipts and Disbursements

(Rupees in crore)

2005-06	Receipts	2006-07	2005-06	Disbursements	2006-07		
Section A: Revenue							
					Non-Plan	Plan	Total
2,408.95	Revenue Receipts	2,862.74	2,004.51	Revenue Expenditure	1,994.65	420.00	2,414.65
95.00	*Tax Revenue*	*121.57*	*722.88*	*General Services*	*869.08*	*4.27*	*873.35*
76.46	*Non-Tax Revenue*	*181.04*	*683.75*	*Social Services*	*446.62*	*217.34*	*663.96*
342.09	*Share of Union taxes/duties*	*436.33*	*597.88*	*Economic Services*	*678.95*	*198.39*	*877.34*
1,895.40	*Grants from Government of India*	*2,123.80*	—	*Grants-in-aid/ contribution*	—	—	—
Section B: Capital							
—	Miscellaneous Capital Receipts	—	615.82	Capital outlay	2.42	864.55	866.97
0.64	Recoveries of Loans and Advances	0.90	60.59	Loans and Advances disbursed	5.28	51.56	56.84
218.11	Public Debt receipts*	265.96	116.82	Repayment of Public Debt*	—	—	285.15
—	Contingency Fund	—	—	Contingency Fund	—	—	—
2,172.88	Public Account receipts	2,206.74	1,738.99	Public Account disbursements	—	—	1,787.46
(-) 232.06	Opening balance	31.79	31.79	Closing balance	—	—	(-) 42.94
4,568.52	**Total**	**5,368.13**	**4,568.52**	**Total**			**5,368.13**

***** Excluding ways and means advances and overdraft.

The following are the significant changes during 2006-07 over the previous year:

- Revenue receipts grew by Rs.453.79 crore (19 *per cent*) over the previous year. The increase was mainly contributed by increase in non-tax revenue (Rs.104.58 crore) and grants from the Government of India (GOI) (Rs.228.40 crore).

[1] The State Government has not set up a Contingency fund as yet.

- Revenue expenditure and capital expenditure increased by Rs.410 crore and by Rs.251 crore respectively over the previous year.
- While recoveries of Loans and Advances grew marginally by Rs.0.26 crore, disbursement of Loans and Advances decreased by Rs.3.75 crore.
- Both public debt receipts and its repayment grew by Rs.47.85 crore and Rs.168.33 crore respectively.
- While Public Account receipts increased by Rs.33.86 crore, increase in disbursement was only Rs.48.47 crore.

The inflow and outflow of funds under various accounts listed above resulted in a steep decline in closing balance from a surplus of Rs.31.79 crore during 2005-06 to minus Rs.42.94 crore in 2006-07.

1.1.2 Fiscal Position by Key Indicators

The fiscal position of the State Government during the current year compared to that of previous year is given below:

Table 1.2

(Rupees in crore)

2005-06	Sl. No.	Major Aggregates	2006-07
2,409	**1.**	**Revenue Receipts (2+3+4)**	2,863
95	*2.*	*Tax Revenue*	122
76	*3.*	*Non-Tax Revenue*	181
2,238	*4.*	*Other Receipts*	*2,560*
1	**5.**	**Non-Debt Capital Receipts**	1
1	*6.*	*Of which, recovery of Loans and Advances*	1
2,410	**7.**	**Total Receipts (1+5)**	2,864
1,592	**8.**	**Non-Plan Expenditure (9+11+12)**	2,002
1,592	*9.*	*On Revenue Account*	1,995
238	*10.*	*Of which, Interest Payments*	289
—	*11.*	*On Capital Account*	2
—	*12.*	*On Loans disbursed*	5
1,089	**13.**	**Plan Expenditure (14+15+16)**	1,337
412	*14.*	*On Revenue Account*	420
616	*15.*	*On Capital Account*	865
61	*16.*	*On Loans disbursed*	52
2,681	**17.**	**Total Expenditure (8+13)**	3,339
(+) 405	**18.**	**Revenue Surplus (+) (1–9–14)**	(+) 448
(–) 271	**19.**	**Fiscal Deficit (–) (17–1–5)**	(-) 475
(–) 33	**20.**	**Primary Deficit (–) (19–10)**	(-) 186

During the current year, revenue receipts increased by Rs.454 crore while revenue expenditure increased by Rs.411 crore, as a result of which, the revenue surplus in 2006-07 increased by Rs.43 crore. Given the increment of Rs.43 crore in revenue surplus, increase of Rs.251 crore in expenditure under capital account and a decline of Rs.4 crore in disbursement of Loans, fiscal deficit has increased by Rs.204 crore during 2006-07. Despite an increase of Rs.51 crore in interest payments, the primary deficit also jumped up by Rs.153

crore due to an increase of fiscal deficit by.Rs.204 crore during the current year.

As per the Twelfth Finance Commission (TFC) recommendations, the State Government received an incentive of Rs.75.08 crore as debt waiver during 2006-07 which is inclusive of Rs.37.54 crore pertaining to 2005-06. The improvement in fiscal position of the State in terms of the revenue surplus during 2006-07 should, therefore, be assessed keeping in view the fact that debt waiver pertaining to 2005-06 was also adjusted in Finance Accounts of the current year. Had the adjustment on account of debt waiver been made in relevant years, *ceteris paribus*, the improvement in fiscal position in terms of revenue surplus would have been only marginal (Rs.5.46 crore) and fiscal deficit would have further deteriorated by Rs.37.54 crore.

1.2 Methodology adopted for assessment of Fiscal position

The trends in the major fiscal aggregates of receipts and expenditure as emerging from the Statements of Finance Accounts were analysed wherever necessary over the period of last five years (2002-07) and observations have been made on their behaviour as per ***Appendix 1.2*** to ***1.4*** and Time Series Data (***Appendix 1.5***). In its Restructuring Plan of State finances, the TFC recommended the norms/ceiling for some fiscal aggregates and also made normative projections for others. In addition, TFC also recommended that all States enact the Fiscal Responsibility (FR) Act and draw their fiscal correction path accordingly for the five year period (2005-10) so that fiscal position of the State could be improved as committed in their respective FR Acts/Rules during medium to long run. The norms/ceilings prescribed by the TFC as well as its projections for fiscal aggregates along with the commitments/projections made by the State Government in its FR Act and in other Statements required to be laid in the Legislature under the Act were used to make qualitative assessment of the trends and pattern of major fiscal aggregates during the current year. Assuming that Gross State Domestic Product (GSDP) is a good indicator of the performance of the State's economy, major fiscal aggregates like tax and non-tax revenue, revenue and capital expenditure, internal debt and revenue and fiscal deficits have been presented as percentage of the GSDP at current market prices. The buoyancy coefficients for tax revenues, non-tax revenues, revenue expenditure *etc*., with reference to the base represented by GSDP have also been worked out to assess as to whether the mobilisation of resources, pattern of expenditure *etc*., are keeping pace with the change in the base or these fiscal aggregates have also been affected by factors other than GSDP. The trends in the growth of GSDP as provided by the Department of Economic and Statistics, Government of Manipur are given in Table below:

Table 1.3

	2002-03	**2003-04**	**2004-05**	**2005-06**	**2006-07**
GSDP (Rupees in crore)	3740	4062	4024	4693	6501
Rate of growth (in *per cent*)	4.14	8.61	(-) 0.94	16.63	38.53

Source: Department of Economics and Statistics, Government of Manipur.

The key indicators adopted for the purpose are (i) Trends and Composition of Aggregate Receipts, (ii) Application of resources, (iii) Assets and Liabilities, and (iv) Management of deficits. Audit observations have also taken into account the cumulative impact of resource mobilisation efforts, debt servicing and corrective fiscal measures. The overall financial performance of the State Government as a body corporate has been presented by the application of a set of ratios commonly adopted for the relational interpretation of fiscal aggregates. In addition, selected indicators of financial performance of the Government are also listed in this section; some of the terms used in this context are explained in ***Appendix 1.1 Part C.***

1.2.1 The Fiscal Responsibility and Budget Management Act

The State Government enacted the Fiscal Responsibility and Budget Management (FRBM) Act, 2005 in August 2005 and FRBM Rules in December 2005, to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal sustainability, greater fiscal transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework. To give effect to the fiscal management principles, the Act prescribed the following fiscal targets for the Government to strive for:

- remain revenue surplus by reducing revenue expenditure and build up further surplus;
- bring down the fiscal deficit to 3 *per cent* of GSDP by 2008-09;
- limit the amount of outstanding Government guarantees as per provisions of Manipur Ceiling on State Government Guarantee Act, 2004.
- Follow recruitment and wage policy so that the expenditure on salary does not exceed 35 *per cent* of the excess of revenue expenditure over interest and pension payments.

For reduction of revenue deficit and fiscal deficit, as laid down in sub-section (2) of section 8 of the Act, the State Government framed the FRBM Rules which state that the State Government shall, strive to reduce the fiscal deficit by a minimum of 1 *per cent* of the GSDP by the end of each financial year, beginning with the financial year 2005-06 so as to achieve the target of reduction of fiscal deficit to 3 *per cent* by 2008-09 provided that, in the event of shortfall in the reduction of revenue and fiscal deficit as envisaged, the target of reduction of deficit in the succeeding year shall stand enhanced by the amount of shortfall in the preceding year.

1.2.2 Roadmap to achieve the Fiscal Targets as laid down in the FRBM Act/Rules

The State Government laid down its own Fiscal Correction Path (FCP), detailing the structural adjustments required for mobilising additional resources and identifying areas where expenditure could be compressed, to achieve the targets set out in the FRBM Act. The FCP projected a revenue surplus of Rs.617.60 crore for 2006-07 with revenue receipts at Rs.2,708.35

crore and the revenue expenditure at Rs.2090.75 crore; fiscal deficit to be contained at Rs.55.38 crore at 1.15 *per cent* of the projected GSDP (Rs.4822.20 crore).

1.2.3 Fiscal Policy Statement(s)

As prescribed in the Act, the State Government was to lay in each year the following statements of fiscal policy along with the budget before the legislature:

- The Medium Term Fiscal Policy Statement (MTFPS) and,
- The Fiscal Policy Strategy Statement.

As per MTFPS, revenue surplus was projected at Rs.797.41 crore by March 2007, fiscal deficit was to be restricted to Rs.107.81 crore, both being higher than the projection made in FCP, and total outstanding liabilities were to be restricted to Rs.3482.78 crore.

1.2.4 Mid-Year Review

As per the FRBM Act, the State Government is required to review on quarterly basis, its receipts and expenditure. However, as reliable data could not be received from the departments on time, the State Government decided to conduct a detailed review after the data is fully received. The State Government is taking necessary steps for completion of computerization of treasuries so that the review could be conducted on the basis of authentic and correct data in a timely manner.

1.2.5 Fiscal performance

In terms of an incentive scheme of TFC, a reward for fiscal performance was built into the debt-write off package under DCRF[2]. According to the scheme, the quantum of write off of repayment of GOI loans after consolidation and reschedulement will be linked to the absolute amount by which revenue deficit is reduced in each successive year during the award period. In effect, if the revenue deficit is brought to zero, the entire repayment during the period will be written off. As a result of improved fiscal performance in terms of this criterion, Manipur Government received a debt waiver of Rs.37.54 crore for 2005-06 and an equal amount for the year 2006-07. However, the whole amount for these two years was booked in the Finance Accounts of the current year.

The fiscal performance *vis-à-vis* the State Government's projections in FCP/MTFPS for 2006-07 as well as the targets set for reducing the fiscal deficit under FRBM Rules reveals that although the State Government had a revenue surplus of Rs.448.09 crore in 2006-07, it was just 56 *per cent* of the figure projected in MTFPS of 2006-07. Fiscal deficit in fact, increased from 5.8 *per cent* of GSDP in 2005-06 to 7.3 *per cent* of GSDP in 2006-07 rather than reducing it at least by one percentage point of GSDP as stipulated under

[2] Debt Consolidation and Relief Facility.

FRBM Rules. The limit of total outstanding guarantees exceeded the ceiling set by the State Government during the year. Although expenditure on salary as percentage of revenue expenditure minus interest and pension had a declining trend over the years, it still stood at 43 *per cent* in the current year.

1.3 Trends and Composition of Aggregate Receipts

1.3.1 Trends in Aggregate Resources

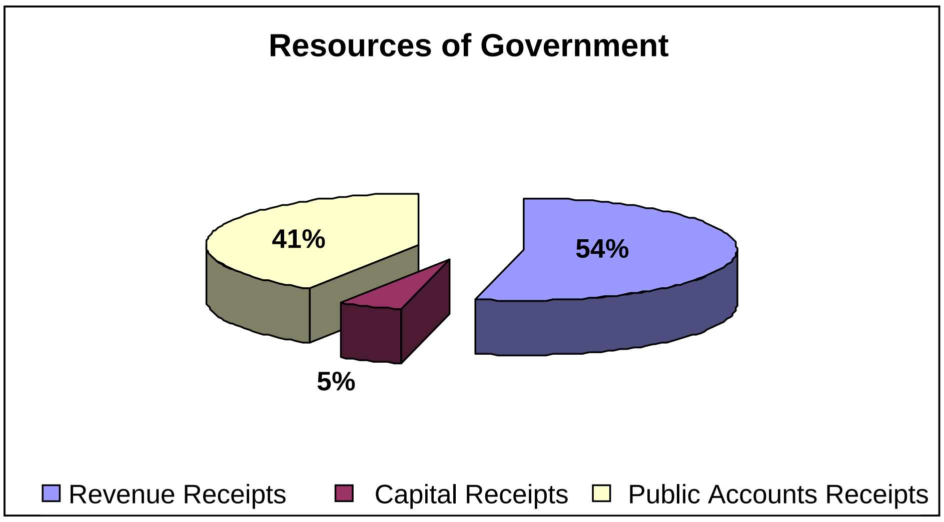
Resources of the State Government consist of revenue receipts and capital receipts. Revenue receipts consist of tax revenue, non-tax revenue, State's share of union taxes and duties and grants-in-aid from the Central Government. Capital receipts comprise miscellaneous capital receipts like proceeds from disinvestments, recoveries of loans and advances, debt receipts from internal sources *viz.*, market loans, borrowings from financial institutions/commercial banks *etc.*, and loans and advances from the GOI, as well as accruals from Public Account. The constituent parts of the resources of the Government for the years 2002-03 to 2006-07 are shown in the table below:

Table 1.4: Trends in Growth and Composition of Aggregate Receipts

(Rupees in crore)

Sources of State's receipts	2002-03	2003-04	2004-05	2005-06	2006-07
I Revenue Receipts	**1327.99**	**1419.71**	**1742.75**	**2408.95**	**2862.74**
II Capital Receipts	**1104.12**	**887.09**	**1110.77**	**218.75**	**266.86**
Recovery of Loans and Advances	*0.47*	*0.48*	*0.58*	*0.64*	*0.90*
Public Debt Receipts	*1103.65*	*876.61*	*1110.19*	*218.11*	*265.96*
Miscellaneous Capital Receipts	—	—	—	—	—
III Contingency Fund	—	—	—	—	—
IV Public Account Receipts	**698.77**	**745.71**	**1107.96**	**2172.88**	**2206.74**
(a) Small Savings, Provident Fund etc.	*118.19*	*121.27*	*164.95*	*367.58*	*373.22*
(b) Reserve Fund	*1.17*	*5.16*	*7.40*	*10.36*	*0.84*
(c) Deposits and Advances	*26.74*	*31.82*	*136.31*	*517.72*	*203.68*
(d) Suspense and Miscellaneous	*131.32*	*44.47*	*202.95*	*225.09*	*(-) 1.13*
(e) Remittances	*421.35*	*542.99*	*596.35*	*1052.13*	*1630.13*
Total Receipts	**3130.88**	**3042.51**	**3961.48**	**4800.58**	**5336.34**

Total receipts of the State for the year 2006-07 were Rs.5336.34 crore. Of these, the revenue receipts were the major contributor with 54 *per cent* followed by public account receipts with 41 *per cent.* Capital receipts constituted only a meagre 5 *per cent.* Remittances consisting of mainly Public Works Remittances (Rs.1,425.85 crore), Cash Remittances between treasuries and currency chest (Rs.96.39 crore) and Reserve Bank of India remittances (Rs.57.51 crore) constituted about 74 *per cent* of the public account receipts.



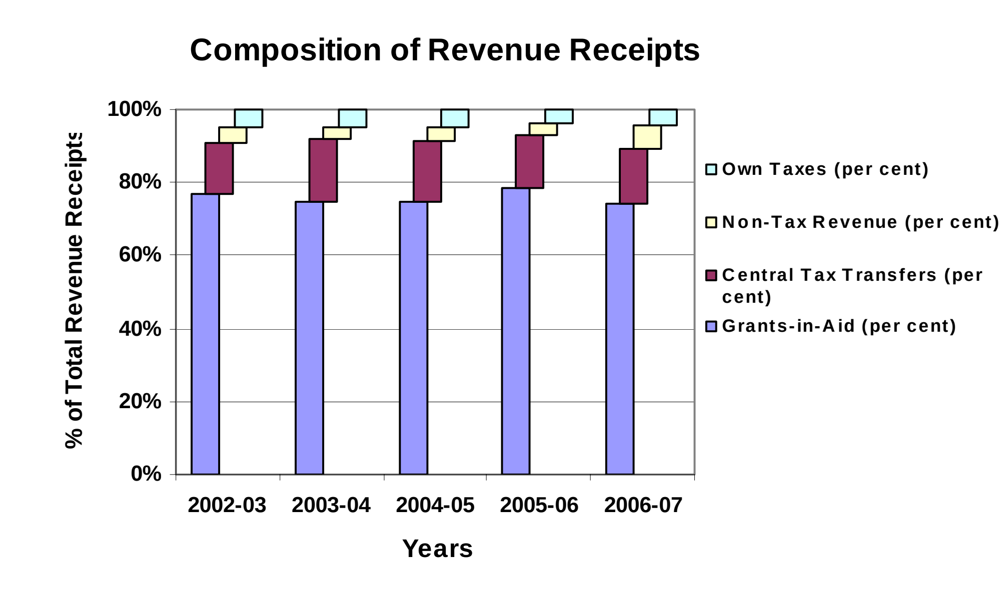
1.3.2 Revenue Receipts

Statement-11 of the Finance Accounts details the revenue receipts of the State consisting mainly of its own tax and non-tax revenues, Central tax transfers and grants-in-aid from the GOI. Overall revenue receipts, their annual rate of growth, ratio to the State's GSDP and buoyancy are indicated below:

Table 1.5: Revenue Receipts – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Receipts (Rupees in crore)	1,328	1,420	1,743	2,409	2,863
Own Taxes *(per cent)*	65 *(4.89)*	68 *(4.79)*	81 *(4.66)*	95 *(3.94)*	122 *(4.26)*
Non-Tax Revenue *(per cent)*	57 *(4.29)*	50 *(3.52)*	70 *(4.02)*	76 *(3.16)*	181 *(6.32)*
Central Tax Transfers *(per cent)*	188 *(14.16)*	241 *(16.97)*	287 *(16.47)*	342 *(14.20)*	436 *(15.23)*
Grants-in-aid *(per cent)*	1,018 *(76.66)*	1,061 *(74.72)*	1,305 *(74.87)*	1,896 *(78.70)*	2,124 *(74.19)*
Rate of Growth of Revenue Receipts (*per cent*)	12.83	6.93	22.75	38.21	18.84
Revenue Receipts/GSDP (*per cent*)	35.51	34.96	43.32	51.33	44.04
Revenue Buoyancy (ratio)	3.09	0.80	#	2.30	0.49
States' Own Taxes buoyancy (ratio)	6.61	0.53	#	1.04	0.73
Revenue Buoyancy with reference to State's own taxes (ratio)	0.47	1.50	1.19	2.21	0.67
GSDP Growth (*per cent*)	4.14	8.61	(-) 0.93	16.63	38.53

(# Rate of GSDP growth was negative)
(Figures in brackets are percentages)



1.3.3 General trends

The revenue receipts of the State more than doubled over the last five years, from Rs.1,328 crore in 2002-03 to Rs.2,863 crore in 2006-07. The receipts comprised mainly (more than *89 per cent*) of funds from the Central Government in the form of grants-in-aid and State's share of Central taxes and duties.

1.3.4 Tax revenue

Over the years, the relative share of tax revenue in the revenue receipts of the State gradually declined from 4.89 *per cent* in 2002-03 to 3.9 *per cent* in 2005-06. During 2006-07 this however, went up to 4.26 *per cent* showing some signs of recovery. The table below shows the trend of tax revenue during 2002-07:

Table 1.6: Tax Revenue

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Sales Tax	43	46	55	71	97
State Excise	2	3	3	3	4
Taxes on Vehicles	3	3	3	4	3
Stamps & Registration fees	2	2	2	3	3
Electricity	-	-	5	-	#
Other Taxes*	15	14	13	14	15
Total	**65**	**68**	**81**	**95**	**122**

* Other taxes include taxes on Land revenues, Taxes on goods and passengers and other taxes and duties on commodities and services.
# Rs.19 lakh only.

As in previous years, sales tax was the main contributor accounting for 80 *per cent* of the tax revenue receipts. The sharp increase of sales tax during the current year over previous year was mainly due to recovery of past arrears and introduction of VAT in the State in July 2005.

1.3.5 Non-tax revenue

The non-tax revenue contributed 3.16 to 6.32 *per cent* of the revenue receipts during the last five years. The total non-tax revenue of Rs.181 crore in 2006-07 came mainly from Miscellaneous General Services (Rs.82.46 crore, which includes Rs.75.08 crore as debt relief from GOI pertaining to 2005-06 and 2006-07), Power (Rs.40.24 crore) and Interest (Rs.35.05 crore). Interest receipts, dividends and profit grew from Rs.6.14 crore last year to Rs.35.05 crore this year, non-tax revenue (NTR) (General Services) from Rs.12.10 crore to Rs.91.94 crore but NTR (Social and Economic Services) decreased from Rs.58.21 crore to Rs.54.05 crore.

The actual revenue receipts (own tax revenues and non-tax revenues) *vis-à-vis* assessment made by TFC and the State Government are given below:

Table 1.7: Revenue receipts (OTR & NTR*) *vis-à-vis* projection for the year 2006-07

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government		Actuals
		Fiscal Correction Path	Medium Term Fiscal Policy Statement	
Tax Revenue	169.65	106.40	104.31	121.57
Non-tax Revenue	40.15	99.60	127.25	181.04

Source: TFC report, Departmental records and the Finance Accounts

* Own tax Revenue and Non-Tax Revenue.

While tax revenue fell short of assessment made by the TFC, non-tax revenue was more than four times the assessment of the TFC mainly on account of inclusion of debt waiver as non-tax revenue under 'Miscellaneous General Services'.

1.3.6 Central tax transfers

The relative share of Central tax transfers in the revenue receipts of the State fluctuated between 14.16 *per cent* to 16.97 *per cent* during the last five years and stood at 15.23 *per cent* in 2006-07, as compared to 14.20 *per cent* in 2005-06.

1.3.7 Grants-in-aid

Grants-in-aid continue to be the main contributor of the State's revenue receipts constituting about 74 *per cent* during 2006-07 and this comprised of non-plan grant (Rs.931 crore), grants for State Plan Schemes (Rs.1020 crore), grants for Central Scheme/Centrally Sponsored Schemes (Rs.151 crore) and grants for Special Plan Schemes (Rs.22 crore). Details are shown below:

Table 1.8: Grants-in-aid from GOI

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Grants for State Plan Schemes	526	575	772	894	1020
Non-Plan grants	391	391	426	846	931
Grants for Central Schemes/Centrally Sponsored Schemes	84	73	85	133	151
Grants for Special Plan Schemes for North Eastern Council and for other purposes	17	22	22	23	22
Total	**1018**	**1061**	**1305**	**1896**	**2124**
Percentage of increase/decrease over previous year	6.60	4.22	23.00	45.29	12.03

Grants for State Plan Schemes increased by Rs.126 crore over the previous year mainly due to increase of Block grants by Rs.110 crore. Within the non-plan grants, State received Rs.841.17 crore as non-plan revenue deficit grant as recommended by the TFC, Rs.19.24 crore for maintenance of roads and bridges; Rs.6 crore for maintenance of forests; Rs.9.42 crore for public building *etc*.

1.4 Application of resources

1.4.1 Growth of expenditure

Statement 12 of the Finance Accounts depicts the detailed revenue expenditure by minor heads and capital expenditure by major heads. The States raise resources to perform their sovereign functions, to maintain delivery of social and economic services, to extend the network of these services through capital expenditure and investments and to discharge their debt service obligations.

The total expenditure of the State increased from Rs.1,577 crore in 2002-03 to Rs.3,339 crore in 2006-07 at an average rate of 27.9 *per cent* per annum.

Table 1.9: Total expenditure – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Total Expenditure (Rupees in crore)	1,577	1,706	2,192	2,681	3,339
Rate of Growth (*per cent*)	3.88	8.18	28.49	22.31	24.54
TE/GSDP Ratio (*per cent*)	42.17	42.00	54.47	57.13	51.36
Revenue Receipts/ TE Ratio (*per cent*)	84.21	83.24	79.52	89.85	85.74
Buoyancy of Total Expenditure with					
GSDP (ratio)	0.93	0.95	#	1.34	0.64
Revenue Receipts (ratio)	0.30	1.18	1.25	0.58	1.30

 # GSDP growth was negative

The total expenditure, as a percentage of GSDP, has shown a rising trend and increased from 42 *per cent* in 2002-03 to 51 *per cent* in 2006-07. However, the buoyancy of total expenditure with reference to GSDP and revenue receipts do not exhibit a definite trend. On revenue account, non-plan expenditure grew from Rs.1592 crore in 2005-06 to Rs.1995 crore during 2006-07 while plan expenditure grew marginally by Rs.8 crore from Rs.412 crore last year to Rs.420 crore this year. On capital account, there was a non-plan expenditure of Rs. 2 crore during this year whereas there was no expenditure in the previous year. Plan expenditure on capital account jumped by 40 *per cent* from Rs.616 crore last year to Rs.865 crore in the current year. An increase of Rs.251 crore in capital expenditure during 2006-07 over the previous year was mainly under major and medium irrigation projects (Rs.105.48 crore); water supply and sanitation (Rs.53.51 crore); education, sports, art and culture (Rs.36.91 crore); medical and public health (Rs.24.65 crore) urban development (Rs.21.60 crore) which were mainly offset by decreases in Public works (Rs.56.44 crore) and Cooperation Department (Rs.10.64 crore).

1.4.2 Trends in total expenditure by activities: In terms of the activities, total expenditure could be considered as being composed of expenditure on General Services, Interest Payments, Social and Economic Services, Grants-in-aid and Loans and Advances.

Table 1.10: Components of Expenditure – Relative share

(in *per cent*)

	2002-03	2003-04	2004-05	2005-06	2006-07
General Services	41.60	37.22	32.76	33.98	30.10
Of which, interest payments	*16.17*	*12.60*	*12.14*	*8.88*	*8.66*
Social Services	33.99	33.00	35.63	30.36	28.00
Economic Services	24.35	29.66	30.70	33.38	40.19
Loans and Advances	0.06	0.12	0.91	2.28	1.71

The above table shows that over the last five years, the percentage of expenditure on General Services (considered as non-developmental) has been gradually declining from 41.60 *per cent* (2002-03) to 30.10 *per cent* (2006-07). On the other hand, the percentage of developmental expenditure (Social and Economic Services) has been steadily increasing from 58.34 *per cent* in 2002-03 to 68.19 *per cent* in 2006-07. The energy sector accounted for nearly 50 *per cent* of the total share of Economic Services.

1.4.3 Incidence of revenue expenditure

Revenue expenditure is incurred to maintain the current level of services and payment for the past obligations and as such does not result in any addition to the State's infrastructure and service network. Details are given in the table below:

Table 1.11: Revenue Expenditure: Basic Parameters

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue Expenditure (Rupees in crore) *of which*	1,415	1,464	1,651	2,004	2,415
Non-Plan Revenue Expenditure (NPRE)	1,276	1,259	1,396	1,592	1,995
Plan Revenue Expenditure (PRE)	139	205	255	412	420
Rate of Growth (*per cent*)					
NPRE	12.03	(-)1.33	10.88	14.04	25.31
PRE	30.15	47.48	24.39	61.57	1.94
NPRE/GSDP (*per cent*)	34.12	30.99	34.69	33.92	30.69
NPRE as percentage of TE	80.91	73.80	63.69	59.38	59.75
NPRE as percentage of RR	96.08	88.66	80.09	66.09	69.68
Buoyancy of Revenue Expenditure with					
GSDP (ratio)	1.38	0.40	#	1.28	0.53
Revenue Receipts (ratio)	0.44	0.50	0.56	0.55	1.09

Rate of growth of GSDP was negative.

Revenue expenditure increased by 71 *per cent* from Rs.1,415 crore in 2002-03 to Rs.2,415 crore in 2006-07. Non-plan revenue expenditure (NPRE) accounted for the major portion of the expenditure during the period (2002-07) and its growth almost doubled over the last five years - from 12 *per cent* in 2002-03, it rose to 25 *per cent* in 2006-07. During 2006-07, NPRE accounted for 31 *per cent* of the GSDP and 70 *per cent* of the revenue receipts. The buoyancy of revenue expenditure with reference to revenue receipts was showing a rising trend over the same period.

Increase in NPRE by Rs.403 crore during the current year was mainly due to increase in expenditure on purchase of power (Rs.237.46 crore), pension payments (Rs.70.43 crore), interest payment and servicing of debt (Rs.51.45 crore).

The actual NPRE *vis-à-vis* assessments made by TFC and State Government are given below:

Table 1.12: Actual NPRE *vis-à-vis* projections

(Rupees in crore)

	Assessments made by TFC	**Assessments made by State Government**		**Actual NPRE**
		Fiscal Correction Path	**Medium Term Fiscal Policy Statement**	
NPRE	1429.96	1658.11	-	1995

NPRE during the current year not only exceeded the assessment made by State Government but also the normative assessment made by the TFC.

1.4.4 Committed Expenditure

1.4.4.1 Salaries and Wages

Table 1.13: Expenditure on Salaries and Wages

(Rupees in crore)

	2003-04	**2004-05**	**2005-06**	**2006-07**
Expenditure on Salaries & Wages* *of which,*	667	731	872	813[3]
Non-plan Head	636	702	837	779
Plan Head**	31	29	35	34
As a *per cent* of GSDP	16.42	18.16	18.58	12.51
As a *per cent* of RR	46.97	41.94	36.20	28.40

(Source: Finance Accounts and VLC records)
* Figures of Wages are based on the data from VLC
**Plan Head also includes salaries and wages paid under Centrally Sponsored Schemes.

The expenditure on salaries and wages increased sharply in 2005-06 because of a one time payment of DA arrears to Government employees but in 2006-07, it declined from the exceptionally high level of expenditure in the previous year. As percentage of GSDP and revenue receipts, the expenditure on salaries and wages displayed a gradual declining trend during the last four years. The total salary relative to revenue expenditure net of interest payment and pension were respectively 61 *per cent*, 55 *per cent* and 43 *per cent* during the

[3] Salaries: Rs.809 crore, Wages: Rs.4 crore

last three years but still higher than the 35 *per cent* ceiling limit set by the FRBM Act.

1.4.4.2 Pension payments

Table 1.14: Expenditure on pension

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Expenditure on pension	167	166	182	168*	239
As *per cent* of GSDP	4.47	4.09	4.52	3.58	3.68
As *per cent* of RR	12.57	11.60	10.44	6.97	8.35

* excluding Rs.17.29 crore booked under the Major Head 8658 – Suspense Accounts.

The increase in pension payments during 2006-07 was mainly due to raising the leave encashment limit of retiring employees from 240 days to 300 days (Rs.5 crore), release of arrears of dearness relief for three years (Rs.27 crore) and transfer of Rs.14 crore of expenditure from Suspense head to Pension head.

The actual pension payment *vis-à-vis* projections is given below:

Table 1.15: Actual Pension Payments *vis-à-vis* projections for the year 2006-07

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government		Actual pension payment
		Fiscal Correction path	Medium Term Fiscal Policy Statement	
Pension payments	223.05	214.86	184.37	239

Actual pension payment during the current year exceeded the projection made by the Government as well as the normative assessment made by TFC.

The Government of Manipur, however, has adopted the new Restructured Defined Contribution Pension Scheme of the GOI *mutatis mutandis* in respect of new entrants to the State's service with effect from 1 January 2005. This would mitigate the impact of rising pension liabilities in future.

1.4.4.3 Interest payments

Table 1.16: Interest payments

(Rupees in crore)

Year	Total Revenue receipts	Interest Payments	Percentage of Interest Payment with reference to	
			Revenue Receipts	Revenue Expenditure
2002-03	1,328	255	19.20	18.02
2003-04	1,420	215	15.14	14.69
2004-05	1,743	266	15.26	16.11
2005-06	2,409	238♣	9.88	11.87
2006-07	2,863	289	10.09	11.97

♣ In 2005-06, interest of Rs.13.35 crore paid on Power Bonds was depicted under Major Head 2801 – Power.

The above table shows that although the State's expenditure on interest payments has been rising over the years, its ratio to the revenue receipts reduced steadily - from 19.20 *per cent* in 2002-03 it dropped to 10.09 *per cent* in 2006-07. The current year's payment consisted of interest on internal debt (Rs.119.80 crore), interest on loans received from the Central Government (Rs.119.99 crore), interest on Small Savings, Provident Fund *etc*. (Rs.49.19 crore). The actual interest payment *vis-à-vis* projections are given below:

Table 1.17 Actual Interest payment *vis-à-vis* projections for the year 2006-07

(Rupees in crore)

	Assessments made by TFC	Assessments made by State Government		Actual interest payment
		Fiscal Correction Path	Medium Term Fiscal Policy Statement	
Interest payments	345.58	267.93	252.83	289

While Interest payment during the year exceeded the expectation set by the State Government, it was less than what was assessed by the TFC mainly due to low interest rate regime as well as the reschedulement of GOI loans at the lower rate of interest rates for the next 20 years.

1.4.4.4 Subsidies

During the current year, an amount of Rs.257.25 lakh was given by the State Government as subsidy. Village and Small Industries received the major share (Rs.246.81 lakh); Social Welfare and Nutrition received Rs.5.44 lakh while Agriculture and Allied Activities received Rs.5 lakh.

1.5 Expenditure by Allocative Priorities

1.5.1 Quality of Expenditure

The availability of better social and physical infrastructure in the State reflects its quality of expenditure. Therefore, the ratio of capital expenditure to total expenditure as well as to GSDP and proportion of revenue expenditure spent on running the existing social and economic services efficiently and effectively would determine the quality of expenditure. The higher the ratio of these components to total expenditure and GSDP, the better is the quality of expenditure. The table below gives these ratios for the period 2002-07.

Table 1.18: Indicators of Quality of Expenditure

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Capital expenditure	**161**	**240**	**521**	**616**	**867**
Revenue expenditure	**1,415**	**1,464**	**1,651**	**2,004**	**2,415**
Of which					
Social and Economic Services with	765	837	947	1,282	1,541
(i) Salary & Wage Component	*	484	530	619	568
(ii) Non-Salary & Wage component	*	353	417	663	973
As *per cent* of Total Expenditure excluding loans and advances					
Capital Expenditure	10.22	14.08	23.99	23.51	26.42
Revenue Expenditure	89.78	85.92	76.01	76.49	73.58
As *per cent* of GSDP					
Capital Expenditure	4.30	5.91	12.95	13.13	13.34
Revenue Expenditure	37.83	36.04	41.03	42.70	37.15

* Bifurcation of salary and non-salary components not available.

The percentage of capital expenditure to the total expenditure as well as to the GSDP has been steadily rising over the last five years indicating steady improvement in the quality of expenditure. Capital expenditure was mainly incurred on Major and Medium Irrigation (Rs.220 crore), Water Supply and

Sanitation (Rs.139 crore) and Public Works (Rs.131 crore). The share of revenue expenditure in the total expenditure has been declining over the years indicating a shift towards capital expenditure. Salary and wage component in the developmental sector (Social and Economic Services) forms a large chunk (37 *per cent*) of the expenditure on this sector during the current year but the expenditure on non-salary component has sharply increased during the last two years. These trends indicate the move towards creation of assets as well as on the maintenance and delivery of these services.

1.5.2 Expenditure on Social Services

Given the fact that the human development indicators such as access to basic education, health services and drinking water and sanitation facilities *etc.* have a strong linkage with eradication of poverty and economic progress, it would be prudent to make an assessment with regard to the expansion and efficient provision of these services in the State. The table below summarises the expenditure incurred by the State Government in expanding and strengthening Social Services in the State during 2003-07:

Table 1.19: Expenditure on Social Services

(Rupees in crore)

	2003-04*	2004-05	2005-06	2006-07
Education, Sports, Art and Culture				
Revenue Expenditure	**291**	**325**	**412**	**386**
Of which				
(a) Salary & Wage component	*204*	*221*	*250*	*250*
(b) Non-salary & Wage component	*87*	*104*	*162*	*136*
Capital Expenditure	**14**	**71**	**10**	**47**
Sub total	***305***	***396***	***422***	***433***
Health and Family Welfare				
Revenue Expenditure	**67**	**61**	**78**	**68**
Of which				
(a) Salary & Wage component	*51*	*54*	*67*	*61*
(b) Non-salary & Wage component	*16*	*7*	*11*	*7*
Capital Expenditure	**8**	**6**	**5**	**29**
Sub total	***75***	***67***	***83***	***97***
Water Supply, Sanitation, Housing and Urban Development				
Revenue Expenditure	**20**	**33**	**73**	**63**
Of which				
(a) Salary & Wage component	*17*	*19*	*24*	*20*
(b) Non-salary & Wage component	*3*	*14*	*49*	*43*
Capital Expenditure	**69**	**167**	**101**	**188**
Sub total	***89***	***200***	***174***	***251***
Other Social Services				
Revenue Expenditure	**89**	**104**	**121**	**147**
Of which				
(a) Salary & Wage component	*31*	*30*	*40*	*35*
(b) Non-salary & Wage component	*58*	*74*	*81*	*112*
Capital Expenditure	**6**	**14**	**14**	**7**
Sub total	***95***	***118***	***135***	***154***
Total (Social Services)	**564**	**781**	**814**	**935**
Revenue Expenditure	**467**	**523**	**684**	**664**
Of which				
(a) Salary & Wage component	*303*	*324*	*381*	*367*
(b) Non-salary & Wage component	*164*	*199*	*303*	*297*
Capital Expenditure	**97**	**258**	**130**	**271**

*Break-up of expenditure on salaries and wages was not available for 2002-03.

Expenditure on Social Services increased from Rs.564 crore in 2003-04 to Rs.935 crore (66 *per cent*) in 2006-07. However, bulk of this expenditure was on revenue account ranging from 67 *per cent* (2004-05) to 84 *per cent* (2005-06). Expenditure on Social Services was distributed over four heads, that is, Education, Sports, Art and Culture (46 *per cent)*; Water Supply, Sanitation, Housing and Urban Development (27 *per cent*); Other Social Services (16 *per cent*) and Health and Family Welfare (11 *per cent*).The table also discloses that major portion of the expenditure was on revenue account except in the case of Water Supply, Sanitation, Housing and Urban Development and that bulk of the expenditure was on salary and wages.

To improve the quality of education and health services, TFC recommended to restrict increase in non-plan salary expenditure on health and education sectors at five *per cent* and six *per cent* respectively. Combining the growth rates of salary and non-salary part, a composite growth rate of 9.5 *per cent* for general education and 11.5 *per cent* for health was recommended. The trends in expenditure in these areas presented in the table *vis-à-vis* norms prescribed by the TFC indicate that some sort of correction is required in allocation of funds in these sectors.

1.5.3 Expenditure on Economic Services

The expenditure on Economic Services includes all such expenditure that promotes, directly or indirectly, the productive capacity of the State's economy. The State's total expenditure in this sector had been increasing during the last four years (2003-04: Rs.505 crore; 2004-05:Rs.673 crore; 2005-06:Rs.896 crore and 2006-07:Rs.1,343 crore); yet nearly two-thirds of it was revenue in nature. The only exception was Irrigation and Flood Control, where revenue expenditure was much lower than the capital expenditure.

Table 1.20: Expenditure on Economic Sector

(Rupees in crore)

	2003-04*	2004-05	2005-06	2006-07
Agriculture, Allied Activities				
Revenue Expenditure	**95**	**107**	**144**	**156**
Of which				
(a) Salary & Wage component	*65*	*73*	*90*	*78*
(b) Non-salary & Wage component	*30*	*34*	*54*	*78*
Capital Expenditure	**4**	**12**	**12**	**4**
Sub total	***99***	***119***	***156***	***160***
Irrigation and Flood Control				
Revenue Expenditure	**37**	**34**	**44**	**41**
Of which				
(a) Salary & Wage component	*23*	*25*	*31*	*28*
(b) Non-salary & Wage component	*14*	*9*	*13*	*13*
Capital Expenditure	**31**	**39**	**139**	**258**
Sub total	*68*	*73*	*183*	*299*
Power & Energy				
Revenue Expenditure	**101**	**127**	**194**	**433**
Of which				
(a) Salary & Wage component	*36*	*38*	*44*	*41*
(b) Non-salary & Wage component	*65*	*89*	*150*	*392*
Capital Expenditure	**29**	**39**	**29**	**61**
Sub total	***130***	***166***	***223***	***494***
Transport				
Revenue Expenditure	**42**	**31**	**45**	**100**
Of which				
(a) Salary & Wage component	*16*	*17*	*22*	*18*
(b) Non-salary & Wage component	*26*	*14*	*23*	*82*
Capital Expenditure	**35**	**88**	**76**	**83**
Sub total	***77***	***119***	***121***	***183***
Other Economic Services				
Revenue Expenditure	**96**	**125**	**171**	**148**
Of which				
(a) Salary & Wage component	*41*	*53*	*51*	*37*
(b) Non-salary & Wage component	*55*	*72*	*120*	*111*
Capital Expenditure	**35**	**71**	**42**	**59**
Sub total	***131***	***196***	***213***	***207***
Total (Economic Services)	**505**	**673**	**896**	**1343**
Revenue Expenditure	**371**	**424**	**598**	**878**
Of which				
(a) Salary & Wage component	*181*	*206*	*238*	*202*
(b) Non-salary & Wage component	*190*	*218*	*360*	*675*
Capital Expenditure	**134**	**249**	**298**	**465**

*Break-up of expenditure on salaries and wages was not available for 2002-03.

1.5.4 Financial Assistance to Local Bodies and other Institutions

The quantum of assistance provided by way of grants to local bodies and others during the five year period 2002-07 is presented in the table below:

Table 1.21: Financial Assistance

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Educational Institutions (Aided Schools, Aided Colleges, Universities *etc.*)	34.10	28.90	45.19	75.71	40.20
Municipal Corporations and Municipalities	0.64	1.54	2.12	1.84	0.87
Other Institutions	0.69	0.69	0.78	1.03	1.25
Total	**35.43**	**31.13**	**48.09**	**78.58**	**42.32**
Assistance as percentage of RE	2.50	2.13	2.91	3.92	1.75

Financial assistance to local bodies and institutions showed wide inter-year variation during 2002-07. However, during 2006-07 it constituted only a small percentage of revenue expenditure at 1.75 *per cent.*

1.5.5 Non-submission of accounts

The accounts of the Manipur State Legal Services Authority, which are to be audited under Section 19(2) of the Comptroller & Auditor General's (Duties, Powers and Conditions of Service) Act 1971, were due for the years 2005-06 to 2006-07.

1.6 Assets and liabilities

In the Government accounting system, comprehensive accounting of the fixed assets like land and buildings owned by Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred by the Government. ***Appendix 1.4*** gives a picture of such liabilities and the assets as on 31 March 2007, compared with the corresponding position on 31 March 2006. While the liabilities consist mainly of internal borrowings, loans and advances from the GOI, receipts from the Public Account and Reserve Funds, the assets comprise mainly the capital outlay, loans and advances given by the State Government and the cash balances.

Appendix 1.4 shows that the increase in liabilities was mainly on account of market borrowings, small savings, and deposits. The liabilities of the Government depicted in the Finance Accounts, however, do not include pension, other retirement benefits payable to serving/retired State employees and guarantees issued by the State Government.

On the assets side, there was an increase of 18.97 *per cent* in the capital outlay on fixed assets, 40.79 *per cent* in respect of loans and advances and large increase in the cash balance, comprising mainly of the cash balance investment account with the RBI, which started with an opening balance of Rs.142.62 crore and ended with a closing balance of Rs.319.11 crore. The Government needs to examine whether its market borrowings were justified in the light of huge cash balances in its account with the RBI, which is indicative of its inability to spend funds available with it.

1.6.1 Incomplete projects

As on 31 March 2007, there were 14 projects of the Public Works Department due to be completed by the close of the current financial year. Against the total budgeted cost of Rs.21.96 crore on these projects, the Government has already spent Rs.15.82 crore but these projects are yet to be completed.

1.6.2 Investments and returns

The table below shows that the Government had invested Rs.173 crore in Statutory Corporations, Government Companies and Co-operative Institutions up to the end of 2006-07, but there was negligible return on its investments showing that the investments were not economically viable. While on one hand, the Government was not earning any profit from these investments, on the other hand, it was paying interest on its borrowings at an average rate of 7.14 *per cent*.

Table 1.22: Return on investment

(Rupees in crore)

Year	Investment at the end of the year	Return	Percentage of return	Average rate of interest on Government borrowing *(in per cent)*	Difference between interest rate and return *(in per cent)*
2002-03	115	—	—	11.53	11.53
2003-04	144	0.08	0.06	9.50	9.44
2004-05	162	0.08	0.05	9.88	9.83
2005-06	173	*	—	6.81	6.81
2006-07	173	—	—	7.14	7.14

* Only Rs.2,730

Investment were made in two statutory corporations, 15 Government companies and in a number of Co-operative banks and societies. Major investments were made in Manipur State Road Transport Corporation (Rs.41.72 crore), Manipur Spinning Mills Corporation Ltd. (Rs.33.89 crore), Manipur Handloom and Handicrafts Development Corporation Ltd. (Rs.11.79 crore) and Manipur State Co-operative bank Ltd. (Rs.21.82 crore). Of these, Manipur State Road Transport Corporation has already been liquidated and Manipur Spinning Mills Corporation Ltd. is going in for liquidation. Manipur Handloom and Handicrafts Development Corporation Ltd is a loss making company and till the year (1987-88) for which accounts were finalized, the accumulated losses amounted to Rs 2.21 crore. This indicates that return on Government investment remained negligible during this period and during the last two years it was nil.

1.6.3 Loans and advances by the Government

Apart from investments in co-operatives, corporations and companies, the State Government has also been providing support in terms of loans and advances to many other organisations; and at the end of 2006-07 such advances stood at Rs.193.11 crore. The table below shows that interest received as percentage of outstanding loans and advances was much less than the average interest rate paid on Government borrowings. The table also shows that while amounts advanced have considerably increased during the last three years, the repayment position did not improve at all.

Table 1.23: Average interest received on loans advanced by the Government

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Opening balance	54.96	56.04	57.52	77.21	137.16
Amount advanced during the year	1.55	1.96	20.27	60.59	56.85
Amount repaid during the year	0.47	0.48	0.58	0.64	0.90
Closing balance	56.04	57.52	77.21	137.16	193.11
Net Addition	1.08	1.48	19.69	59.95	55.95
Interest received	0.26	0.19	0.26	0.52	0.70
Interest received as *per cent* to outstanding loans and advances	0.47	0.33	0.39	0.49	0.42
Average interest rate (in *per cent*) paid on borrowings by State Government	11.53	9.50	9.88	6.81*	7.14
Difference between average interest paid and received (*per cent*)	11.06	9.17	9.49	6.32*	6.72

* The figure of last year was based on weighted interest rate

Major recipients of loans during 2006-07 were social security and welfare (Rs.50 crore) and Government servants (Rs.5.28 crore). While the State Government earned less than one *per cent* interest over loans and advances made by it during the last five years against TFC norm of 5 *per cent*, it was paying much higher rate on its borrowing during 2002-07. Interest received as *per cent* of outstanding loans and advances throughout these years was below 0.5 *per cent*.

1.6.4 Management of cash balances

It is generally desirable that State's flow of resources should match its expenditure obligations. However, to take care of any temporary mismatches in the flow of resources and the expenditure obligations, a mechanism of Ways and Means Advances from RBI has been put in place. The operative limit for Normal Ways and Means Advances is reckoned on the three year average of revenue receipts and the operative limit for Special Ways and Means Advances is fixed by the RBI from time to time depending on the holding of Government securities.

The limit for Normal Ways and Means Advances has been fixed at Rs.60 crore while Special Ways and Means Advances has been fixed up to a maximum of Rs.4.39 crore against the pledge of GOI securities.

During 2006-07, the State Government did not resort to Ways and Means Advances on any occasion as depicted in the table below:

Table 1.24: Ways and Means Advances and Overdrafts

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Ways and Means Advance					
Availed in the year	101.54	247.07	191.24	90.90	—
Outstanding WMAs	55.70	55.31	54.83	—	—
Interest paid	3.28	2.99	1.22	2.51	—
Number of days	—	48	35	127	—
Overdraft					
Availed in the year	1,227.45	215.20	50.31	6,520.20	—
Number of days	135	212	119	44	—
Interest paid	18.63	1.71	9.16	1.99	—

1.7 Undischarged liabilities

1.7.1 Fiscal Liabilities – Public Debt and Guarantees

There are two sets of liabilities namely, public debt and other liabilities. Public debt consists of internal debt of the State and is reported in the Annual Financial Statements under the Consolidated Fund – Capital Accounts. It includes market loans, special securities issued by RBI and loans and advances from the Central Government. As per the FRBM Act, total liabilities is taken as the sum of the liabilities under the Consolidated Fund of the State and the Public Account of the State.

The Constitution of India provides that a State may borrow, within the territory of India, upon the security of its Consolidated Fund, within such limits as may from time to time be fixed by the Act of its Legislature and give guarantees within such limits as may be fixed. Other liabilities, which are a part of public account, include deposits under small savings schemes, provident funds and other deposits.

The table below gives the fiscal liabilities of the State, its rate of growth, ratio of these liabilities to GSDP, to revenue receipts and to own resources as also the buoyancy of fiscal liabilities with respect to these parameters:

Table 1.25: Fiscal Liabilities – Basic Parameters

	2002-03	2003-04	2004-05	2005-06	2006-07
Fiscal Liabilities (Rupees in crore)	2,225	2,300	3,082	3,905	4,187
Rate of Growth (*per cent*)	1.23	3.37	34.00	26.70	7.22
Ratio of Fiscal Liabilities to					
GSDP (*per cent*)	59.49	56.62	76.59	83.21	64.41
Revenue Receipt (*per cent*)	167.55	161.97	176.82	162.10	146.24
Own Resources (*per cent*)	1,823.77	1,949.15	2,041.06	2,283.63	1,381.85
Buoyancy of Fiscal Liabilities to					
GSDP (ratio)	0.29	0.39	#	1.60	0.19
Revenue Receipt (ratio)	0.09	0.48	1.49	0.69	0.38
Own Resources (ratio)	0.02	*	1.21	2.01	0.09

 # Rate of growth of GSDP was negative, Own resources had a negative growth*

The above table shows that the rate of growth of the fiscal liabilities has gone up significantly during the last three years, outpacing the rate of growth in the GSDP, revenue receipts and State's own resources, as is evident from the increase in the percentage of fiscal liabilities to these aggregates. The increase during 2006-07 was mainly because of rise in internal debt (Rs.219.78 crore) and small savings, provident fund *etc*. (Rs.292.47 crore). This will adversely impact the future cash flow of the State by way of servicing these liabilities, if the returns are not commensurate with the cost of these liabilities.

The State Government had not set up (March 2007) a consolidated Sinking Fund for amortization of market borrowings, other loans and debt obligation, as per the recommendation of the TFC.

1.7.2 Status of Guarantees – Contingent Liabilities

Guarantees are liabilities contingent on the Consolidated Fund of the State in case of default by the borrower to whom the guarantee has been extended.

As per Section 3 of the Manipur Ceiling on State Government Guarantee Act, 2004 (Act), the total outstanding guarantees as on I[st] April of any year shall not exceed thrice the State's own tax revenue receipts of the second preceding year. However, during the current year, the Government had given guarantees for Rs.194 crore resulting in outstanding guarantees of Rs.251 crore as on 31 March 2007. The outstanding liabilities have however exceeded the ceiling limit as prescribed in the Act marginally by Rs. 8 crore.

Table 1.26: Guarantees given by the Government

(Rupees in crore)

Year	Maximum amount guaranteed	Outstanding amount of guarantees	Percentage of maximum amount guaranteed to total revenue receipts
2002-03	215	9	16.19
2003-04	214	22	15.07
2004-05	214	22	12.28
2005-06	247	209	10.25
2006-07	194	251	6.78

The above table shows that the maximum amount of guarantees went down from Rs.247 crore in 2005-06 to Rs.194 crore in 2006-07. Over the years the percentage of maximum amount guaranteed to the total revenue receipts has been gradually decreasing from 16.19 in 2002-03 to 6.78 in 2006-07. The principal beneficiaries of the guarantees were Planning & Development Authority (Rs.129.06 crore), Khadi & Village Industries (Rs.36.33 crore) and Manipur Tribal Development Corporation (Rs.9.00 crore). The State Government had not set up (March 2007) a guarantee redemption fund to meet the contingent liabilities arising from such guarantees, as per the recommendation of the TFC.

1.7.3 Debt Sustainability

The Debt sustainability is defined as the ability of the State to maintain a constant debt-GSDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt therefore also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep balance between costs of additional borrowings with returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt. A prior condition for debt sustainability is debt stabilization in terms of debt/GSDP ratio.

1.7.4 Debt Stabilization

A necessary condition for stability states that if the rate of growth of economy exceeds the interest rate or cost of public borrowings, the debt-GDP ratio is likely to be stable provided primary balances are either zero or positive or are moderately negative. Given the rate spread (GSDP growth rate–interest rate) and quantum spread (debt x rate spread), debt sustainability condition states that if quantum spread together with primary deficit is zero, debt-GSDP ratio would be constant or debt would stabilise eventually. On the other hand, if primary deficit together with quantum spread turns out to be negative, debt-GSDP ratio would be rising and in case it is positive, debt-GSDP ratio would eventually be falling. Trends in fiscal variables indicating the progress towards the debt stabilisation are indicated in the table below:

Table 1.27: Debt sustainability – Interest Rate and GSDP Growth (*in per cent*)

	2002-03	2003-04	2004-05	2005-06	2006-07
Average Interest Rate	11.53	9.50	9.88	6.81*	7.14
GSDP Growth	4.15	8.61	(–)0.94	16.63	38.53
Interest spread	(–)7.38	(–)0.89	(–)10.82	9.82*	31.39
Opening balance of fiscal liability (Rs. in crore)	713.39	2224.55	2299.63	3082.11	3904.83
Quantum Spread (Rs. in crore)**	(–)52.65	(–)19.79	(–)248.82	302.66	1225.73
Primary Deficit (Rs. in crore)	(+)6.00	(–)71.00	(–)182.00	(–)33.00	(-)186.00

* The figure of last year was based on weighted interest rate.
** Quantum spread is calculated based on the total debt liability as on 1 April of the year.

The above table reveals that primary deficit together with quantum spread turned out to be highly negative during the first three years (2002-05) indicating increasing debt- GSDP ratio as well as FD-GSDP ratio. However, during the last two years (2005-07) the positive quantum spread exceeded the primary deficit reversing the trend bringing the ratio of fiscal liabilities to GSDP to around 64 *per cent* during the current year. Its impact might be reflected in coming years if favourable conditions continue to persist. Since the State has revenue surplus, debt could be sustained in the short run; but for its sustainability in the long run, it is necessary that the borrowed funds are able to generate adequate incremental revenue to service the debt obligations.

1.7.5 Sufficiency of Non-debt Receipts

Another indicator for debt stability and its sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. The debt sustainability could be significantly facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. The table below indicates the resource gap as defined for the period 2002-07:

Table 1.28: Incremental Revenue Receipts and Revenue Expenditure

(Rupees in crore)

Period		Incremental			Resource Gap
	Non-debt Receipts	Primary expenditure	Interest payments	Total expenditure	
	(1)	(2)	(3)	(4)	(5)
2002-2003	151	(-) 4	64	60	91
2003-2004	92	169	(-) 40	129	(-) 37
2004-2005	324	435	51	486	(-) 162
2005-2006	666	517	(-) 28	489	177
2006-2007	454	607	51	658	(-) 204

The resource gap between non-debt receipts and total expenditure oscillated between negative and positive figures. While the gap of last year was positive, it turned negative in the current year. This was mainly due to increase in non-plan revenue expenditure by Rs.403 crore. This requires closer attention to check the resource gap.

1.7.6 Net Availability of Funds

The debt sustainability of the State also depends on (i) the ratio of the debt redemption (Principal + Interest Payments) to total debt receipts and (ii) application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds. The solution to the Government debt problem lies in application of borrowed funds, i.e. they are (a) not being used for financing revenue expenditure; and (b) being used efficiently and productively for capital expenditure which either provides returns directly or results in increased productivity of the economy in general which may result in increase in Government revenue.

The table below gives the position of the receipt and repayment of internal debt and other fiscal liabilities of the State over the last five years:

Table 1.29: Net Availability of Borrowed Funds

(Rupees in crore)

	2002-03	2003-04	2004-05	2005-06	2006-07
Internal debt					
Receipts	1,408	812	325	304	260
Repayment (Principal + Interest)	1851	706	437	238	160
Net Fund Available	(–)443	106	(-) 112	66	100
Net Fund Available (*per cent*)	-	13.05	-	21.71	38.46
Loans and Advances from Government of India					
Receipts	1,025	527	1,027	5	6
Repayment (Principal + Interest)	703	724	491	168	365
Net Fund Available	322	(–)197	536	(-) 163	(-)359
Net Fund Available (*per cent*)	31.41	-	52.19	-	-
Other obligations					
Receipts	145	155	303	887	560
Repayment (Principal + Interest)	252	205	211	204	308
Net Fund available	(-) 107	(-) 50	92	683	252
Net Fund available (*per cent*)	-	-	30.36	77	45
Total liabilities					
Receipts	2,578	1,494	1,655	1,196	826
Repayment (Principal + Interest)	2,806	1,635	1,139	610	833
Net Funds Available	(–)228	(–)141	516	586	(-)7
Net Funds Available (*per cent*)	-	-	31.18	48.99	-

Although the net funds available were positive during the last two preceding years (2004-06), this was reduced to minus Rs.7 crore by the end of the current year. This was mainly due to less receipts of internal debt and higher repayment of loans and advances to the GOI.

1.8 Management of deficits

Deficit in Government accounts represents the gap between its receipts and expenditure. The nature of the deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the borrowed resources are applied and used by the Government are important pointers to its fiscal health.

1.8.1 Trends in Deficits

The trends in fiscal parameters depicting the position of fiscal equilibrium in the State are presented in the table below:

Table 1.30: Fiscal Imbalances – Basic Parameters

Parameters	2002-03	2003-04	2004-05	2005-06	2006-07
Revenue deficit (-)/Revenue surplus(+) (Rupees in crore)	(–) 87.00	(–) 44.00	(+) 92.00	(+) 405.00	(+) 448.00
Fiscal deficit (–) (Rupees in crore)	(–) 249.00	(–) 286.00	(–) 448.00	(–) 271.00	(–) 475.00
Primary deficit (–)/Primary surplus(+) (Rupees in crore)	(+) 6.00	(–) 71.00	(–) 182.00	(–) 33.00	(–) 186.00
Revenue Surplus(+)/Deficit(-)/GSDP (*per cent*)	(–) 2.33	(–) 1.08	2.29	8.63	6.89
FD/GSDP (*per cent*)	(–)6.66	(–)7.04	(–)11.13	(–) 5.77	(–) 7.31
Primary Surplus(+)/Deficit(-)/GSDP (*per cent*)	0.16	(–)1.75	(–)4.52	(–) 0.70	(–) 2.86
RD/FD (*per cent*)	34.94	15.38	*	*	*

* Revenue remained surplus during these years

Revenue deficit of a State indicates excess of its revenue expenditure over its revenue receipts. The revenue account of the State had exhibited consistent improvement over the years as its revenue deficit declined during the first two years (2002-04) and thereafter turned into a surplus during the last three years. The improvement in revenue surplus during the current year was mainly on account of increase of Rs.454 crore (19 *per cent*) in revenue receipts. The increase in revenue receipts during 2006-07 was attributed to increase in Grants from GOI (Rs.228 crore), share of Union taxes/duties (Rs.94 crore) and non-tax revenue receipt (Rs.105 crore; including debt relief of Rs.75.08 crore). The improvement in fiscal position of the State in terms of the revenue surplus during 2006-07 should be assessed keeping in view the fact that debt waiver pertaining to 2005-06 was also adjusted in Finance Accounts of the current year. Had the adjustment on account of debt waiver been made in relevant years, *ceteris paribus*, the improvement in fiscal position in terms of revenue surplus would have been only marginal (Rs.5.46 crore) and fiscal deficit would have further deteriorated by Rs.37.54 crore.

Even though there was an increase of Rs.43 crore in revenue surplus, the fiscal deficit increased by Rs.204 crore on account of a combined impact of an increase of Rs.251 crore on capital expenditure and a decline of Rs.4 crore in disbursement of loans and advances.

1.8.2 Quality of Deficit/Surplus

The ratio of RD to FD and the decomposition of Primary deficit into primary revenue deficit[4] and capital expenditure (including loans and advances) would indicate the quality of deficit in the States' finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. The ratio of RD to FD of 35 *per cent* in 2002-03 came down to 15 *per cent* in 2003-04 and thereafter it was wiped out and turned into surplus.

The bifurcation of the factors resulting into primary deficit or surplus of the State during the period 2002-2007 reveals (Table below) that the primary deficit in all these years was on account of capital expenditure incurred and loans and advances disbursed by the State Government. In other words, non-debt receipts of the State were enough to meet the primary expenditure[5] requirements in the revenue account, and some receipts were left to meet the expenditure under the capital account. This indicates the extent to which the primary deficit has been on account of enhancement in capital expenditure which may be desirable to improve the productive capacity of the State's economy.

Table 1.31: Primary deficit/surplus – Bifurcation of factors

(Rupees in crore)

Year	Non-debt receipts[6]	Primary revenue Expenditure	Capital Expendi-ture	Loans and Advances	Primary Expenditure	Primary revenue deficit (-) Surplus (+)	Primary deficit [7](-)/ Surplus (+)
(1)	(2)	(3)	(4)	(5)	(6)(3+4+5)	(7)(2-3)	(8)(2-6)
2002-03	1328	1,160	161	1	1,322	(+) 168	6
2003-04	1420	1,249	240	2	1,491	(+)171	(-) 71
2004-05	1,744	1,385	521	20	1,926	(+) 359	(-) 182
2005-06	2,410	1,766	616	61	2,443	(+) 644	(-) 33
2006-07	2,864	2,126	867	57	3,050	(+) 738	(-) 186

1.9 Fiscal ratios

The finances of a State should be sustainable, flexible and non-vulnerable. The table below presents a summarized position of Government finances over the period 2002-07, with reference to certain key indicators that help to assess the adequacy and effectiveness of available resources and their applications, highlights areas of concern and captures its important facets.

[4] Primary revenue deficit defined as gap between non-interest revenue expenditure of the state and its non-debt receipts indicates the extent to which the non-debt receipts of the State are able to meet the primary expenditure incurred under revenue account.

[5] Primary expenditure of the State defined as the total expenditure net of the interest payments indicates the expenditure incurred on the transactions undertaken during the year.

[6] Includes revenue receipts and recovery of loans and advances.

[7] Primary deficit defined as fiscal deficit net of interest payments indicates the extent of deficit which is an outcome of fiscal transaction of the State during the course of the year.

Table 1.32: Indicators of Fiscal Health (*in per cent*)

Fiscal Indicators	2002-03	2003-04	2004-05	2005-06	2006-07
I. Resource Mobilisation					
Revenue Receipt/GSDP (per cent)	35.51	34.96	43.32	51.33	44.04
Revenue Buoyancy	3.09	0.80	#	2.30	0.49
Own tax/GSDP (per cent)	1.738	1.67	2.01	2.02	1.88
II. Expenditure Management					
Total expenditure/GSDP	42.17	42.00	54.47	57.13	51.36
Total Expenditure /Revenue Receipt	118.75	120.14	125.76	111.29	116.63
Revenue Expenditure / Total Expenditure	89.73	85.81	75.32	74.75	72.33
Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	33.06	32.10	30.89	23.56
Non-Salary & Wage expenditure on Social and Economic Services / Revenue Expenditure	NA	24.11	25.26	33.08	40.25
Capital Expenditure / Total Expenditure*	10.22	14.08	23.99	23.50	26.42
Development expenditure/total expenditure *	50.38	62.73	66.94	65.23	69.41
Capital Expenditure on Social and Economic Services / Total Expenditure	9.89	13.54	23.13	15.93	22.04
Buoyancy of TE with RR	0.30	1.18	1.25	0.58	1.30
Buoyancy of RE with RR	0.44	0.50	0.56	0.55	1.09
III. Management of Fiscal Imbalances					
Revenue deficit (Rupees in crore)	(–) 87.00	(–) 44.00	(+) 92.00	(+) 405.00	(+) 448
Fiscal deficit (Rupees in crore)	(–) 249.00	(–) 286.00	(–) 448.00	(–) 271.00	(-) 475
Primary deficit (Rupees in crore)	(+) 6.00	(–) 71.00	(–) 182.00	(–) 33.00	(-) 186
Revenue deficit/Fiscal deficit (in *per cent*)	34.94	15.38	@	@	@
IV. Management of Fiscal Liabilities (FL)					
Fiscal Liabilities/GSDP	59.49	56.62	76.59	83.21	64.41
Fiscal Liabilities / RR	167.55	161.97	176.82	162.10	146.24
Buoyancy of FL with RR	0.09	0.48	1.49	0.69	0.38
Buoyancy of FL with Own Resources	0.02	(–) 1.02	1.21	2.01	0.09
Primary deficit vis-à-vis quantum spread	(-) 46.65	(-) 90.79	(-) 430.82	(+) 269.66	(+) 1039.73
Net Fund Available	(–) 8.84	(–) 9.44	31.18	48.99	0.70
V. Other Fiscal Health Indicators					
Return on Investment (Rupees in crore)	0.00	0.06	0.05	**0.00	-
Balance from Current Revenue (Rupees in crore)	(–) 575.00	(–) 509.00	(–) 532.00	(–) 232.00	(-) 325
Financial Assets / Liabilities	1.27	1.23	1.22	1.29	1.35

* Total expenditure does not include Loans and Advances.
# GSDP growth was negative.
@ RD/FD ratio not calculated as there was revenue surplus.
** Negligible

The ratios of revenue receipts and State's own taxes to GSDP indicate adequacy of the resources. The buoyancy of the revenue receipts indicates the nature of the tax regime and the State's increasing access to resources. Revenue receipts comprised of not only the tax and non-tax resources of the State but also the transfers from Union Government. The ratio of revenue receipts to GSDP during the current year was 44 *per cent*, a decrease of seven percentage points over the previous year. The ratio of own taxes to GSDP remained stagnant during these years.

Various ratios concerning the expenditure management of the State indicate quality of its expenditure and sustainability of these in relation to its resource mobilisation efforts. The revenue expenditure as a percentage to total expenditure consistently declined from 90 *per cent* in 2002-03 to 72 *per cent* during 2006-07 exhibiting an increasing trend in the ratio of capital expenditure to total expenditure. The revenue receipts were adequate to finance around 80-90 *per cent* of the total expenditure during the period 2002-07 indicating continued dependence on borrowed funds. This is also reflected by the ratio of fiscal liabilities to revenue receipts which remained on an average around 160 *per cent* during this period.

While revenue surplus increased by only Rs.43 crore, there was significant increase in fiscal deficit by Rs.204 crore, indicating the need to tighten fiscal position of the State. The Balance from Current Revenues (BCR) remained negative during 2002-07 but there was an encouraging trend in the ratio of fiscal assets to fiscal liabilities which not only remained greater than one during this period, but exhibited an increasing trend during the last three years (2004-07).

1.10 Conclusion

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – has indicated a mixed trend in 2006-07 relative to the previous year, i.e. revenue surplus has shown a marginal improvement of Rs.43 crore while the other parameters exhibited significant deterioration. Even the improvement in revenue surplus needs to be viewed in the light of the fact that debt waiver pertaining to 2005-06 was also adjusted in Finance Accounts of the current year. Had the adjustment on account of debt waiver been made in relevant years, *ceteris paribus*, the improvement in revenue surplus would have been only marginal (Rs.5.46 crore) and fiscal and primary deficits would have further deteriorated by Rs.37.54 crore. Moreover, the fiscal performance of the State *vis-à-vis* targets set in FCP/MTFPS as well as the stipulations prescribed under FRBM Rules indicates dismal picture during the current year. Apart from the fact that 89 *per cent* of State's revenue receipts are being contributed by Central transfers comprising of State's share of Union taxes and duties and grants-in-aid from GOI, the expenditure pattern of the State reveals that the revenue expenditure as a *percentage* to total expenditure although indicated a declining trend, still constituted around 72 *per cent* during the current year leaving inadequate resources for expansion of services and creation of assets. Within revenue expenditure, NPRE at Rs.1995 crore in 2006-07 constituted around 83 *per cent* and remained significantly higher than the normatively assessed level of Rs.1430 crore by TFC for the year. The continued prevalence of fiscal and primary deficits in the Finance Accounts of the State indicates the increasing reliance of the State on the borrowed funds resulting in increasing fiscal liabilities over this period. The increasing fiscal liabilities accompanied by a negligible rate of return on Government investments and inadequate interest cost recovery on loans and advances might lead to unsustainable debt situation in medium to long run unless suitable measures are initiated to compress the non-plan revenue expenditure and to mobilize additional resources both through the tax and non-tax sources in ensuing years.